

Uva Wellassa University
Faculty of Management



Degree of Bachelor of Business Management in Entrepreneurship and Management
THIRD YEAR FIRST SEMESTER EXAMINATION –MAY/JULY 2017
ENM 321 -2 TAXATION

Instructions to candidates:

No. of pages : Five (05)
No. of questions : Six (06) Essay
Time allocation : Two (02) Hours
Marks allocated : 100 Marks

Index Number:

Answer **any four** questions

The question paper is not to be removed out from the examination hall.

01.

- i) "No government can operate the country's economy without imposing taxes". Explain the importance of imposing tax to operate the economy while describing the basic principles to be considered when deciding a tax system. (10 Marks)
- ii) Not like other countries, in Sri Lanka indirect tax gives higher contribution to government tax income. Argue whether it is good or bad by providing advantages and disadvantages of imposing indirect tax (15 Marks)

(Total Marks-25)

02. Dr. Piyasoma who is a medical officer retired at the age of 60 years, is living in a house owned by him situated in Nugegoda. The rating Assessment of the house is Rs.400,000. Presently he is working in a Private hospital as the Director Surgical Operations. Particulars of his income and Expenses for the year of assessment 2015/16 are as follows:

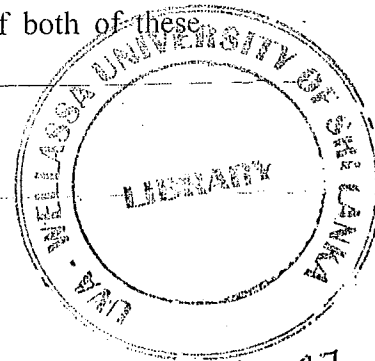
• Employment Income:

Salary received during the year	Rs.900,000
Bonus	Rs.200,000
Travelling allowance (per month)	Rs.30,000
Reimbursement of private telephone bills	Rs.60,000

He is assigned two vehicles by the hospital one is with driver and other one is without driver for personal use as well. The engine capacity of both of these vehicles is 1,600CC.

• Income earned from private practice of surgical operations:

Received from Aman Hospital	Rs.600,000
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Nuwan eye Hospital	Rs.560,000
Suraloka channeling center	Rs.850,000
• Expenses incurred for surgical operations:	
Payments to other doctors for assistance	Rs.200,000
Cost of Medicine	Rs.220,000
Other cost	Rs.320,000
• Interest Income:	
Treasury Bill income	Rs.360,000
Bank of Ceylon	Rs.600,000
National Savings Bank	Rs.450,000

• Rent Income:

Dr. Piyasoma has given a house on rent from 01.08.2014 at Rs.20,000 per month. The house was vacant from April to July 2014. Rating assessment of the house was Rs.150,000 per annum and rates were paid @ 20% (area of the house was 2,100 sq.ft.). This had been constructed in 2009.

Dr. Piyasoma has constructed another house in Nuwaraeliya during the year 2014 by obtaining a bank loan. The loan installment paid during the year consist of capital Rs.200,000 and interest Rs.300,000. The Rating Assessment of this house is Rs.200,000 while Rates applicable for the area is at 20%.

- PAYE deductions Rs.65,000, Life Insurance premium paid Rs.150,000, and Donations given to Government (cash) Rs.75,000.

You are required to;

Calculate Dr. Piyasoma's Income Tax Payable for the year of assessment 2015/16

(25 Marks)

03. Mr. Mahesh retired from the Government service at the age of 65 years on 01.02.2015. After retirement he joined to a Private Company as the General Manager. His income and expenses for the year of Assessment 2015/16 are as follows.

- Monthly Basic Salary from the Government Service was Rs.48,000. Cost of living allowance was Rs.4,800. Salary arrears received in respect of the period from 01.10.2015 to 01.2.2016 was Rs. 32,000.
- Income from Private company
 - Monthly salary from the Company Rs.100,000
 - Leasing payment made by the Company for the car belongs to him Rs.160,000

- Reimbursement of medical expenses incurred for his mother Rs.56,000
- Monthly rent paid by the Company in respect of rent free residence provided to him was Rs.28,000.(This house is belonging to one of the Directors of the Company. Rating Assessment is Rs.400,000 while rate paid at 30%)
- Life insurance Policies paid in respect of him and his wife were Rs.24,000 and Rs.18,000 respectively.
- Rs.10,000 was deducted monthly from his salary for the loan given to him on 01.01.2010 to purchase a house. The cost of this house was Rs.2,500,000.
- Other income
 - The only house he is having was constructed in 2000 has been given on rent for a monthly rent of Rs.30,000. The Rating assessment of this house was Rs.300,000 for which rates are paid at 20%.
 - Both of his daughters are university students. To enable them to easy access to the university, he rented out a house belong to his friend for a monthly rent of Rs.10,000. The Rating Assessment of this house was Rs.300,000 while rates are paid at 30%.
 - Interest income from the Bank of Ceylon for a Fixed Deposit was Rs.560,000 from which withholding tax is not deducted.
 - Lottery prize received from National lottery Board was Rs.480,000
- PAYE deductions for the year was Rs.16,000
- Interest and Capital paid for the loan taken from Peoples Bank to purchase the above mentioned house are Rs.29,000, Rs.50,000 respectively.

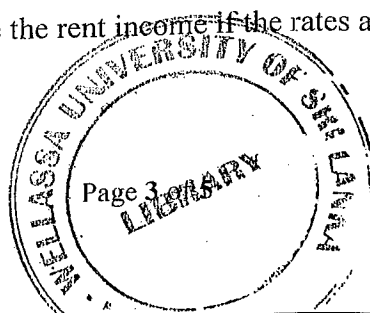
You are required to;

Compute Mr.Mahesh's income tax liability for the Year of assessment 2015/16 (25 Marks)

04.

- i) A house situated in Colombo which has a Rating Assessment of Rs.400,000 is let at a rent of Rs.50,000 per month. The house is occupied for the whole year but the rent could not be recovered for two months. Calculate the Income from rent. (06 Marks)
- ii) A house situated in Gampaha which has a Rating Assessment of Rs.100,000 is let at a rent of Rs.15,000 per month. The house is occupied for the whole year. Tenet paid the rent for 13 months. Calculate the rent income if the rates are calculated at 15%.

(06 Marks)



You are required to;

Compute the divisible profit, partnership tax, and share the profit and other information of the partners for tax purposes. (25 Marks)

06.

i) Explain how taxation of companies is different from individual taxation (10 Marks)

ii) The profit before tax of Wijaya (Pvt) Ltd for the year ending 31/03/2016 is Rs.6,000,000. When computing the above profit following transactions have been made.

Profit on revaluation of building	Rs 500,000
Loss on revaluation of non- quoted shares	Rs 200,000
Profit on revaluation of quoted shares	Rs 300,000
Loss on revaluation of machinery	Rs 200,000
Dividend Declared	Rs 200,000 (for ordinary shares)
Dividend Declared	Rs 200,000 (for Preference shares)

Depreciation rate applicable to Building and machinery are 10% & 20% respectively.

Income Tax Liability is Rs 500,000

You are required to compute;

- a. Minimum dividend distributable to avoid the force dividends (07 Marks)
- b. Force dividend tax (08 Marks)

(Total Marks-25)

